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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 004062

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SUBJECT: KMT VICE CHAIRMAN P.K. CHIANG ON CROSS-STRAIT
RELATIONS, ECONOMIC DEVELOPMENT, AND DOMESTIC POLITICS

Classified By: AIT Deputy Director Robert S. Wang,
Reason 1.4 (b/d)

¶1. (C) Summary: KMT Vice Chairman Chiang Ping-kun told DDIR recently that Beijing's approach toward the KMT has softened under President Hu Jintao. Hu is more willing than previous CCP leaders to work with the KMT to preserve the "status quo" because of his concern that President Chen is pursuing an independence agenda. Chiang expected that the KMT will encounter resistance from Beijing on issues of Taiwan's sovereignty and foreign relations if the KMT returns to power. However, he stressed, cross-strait opening will be crucial to Taiwan's long-term economic viability. Chiang criticized DPP economic policy, discussed upcoming mayoral elections in Taipei and Kaohsiung, and said KMT Chairman Ma Ying-jeou is the party's only viable candidate for the 2008 presidential election. End Summary.

Optimistic on Future Cross-Strait Relations . . .

¶2. (C) Kuomintang (KMT) Vice Chairman Chiang Ping-kun, one of the party's top strategists on economic and cross-strait affairs, told DDIR on November 29 that he is optimistic about the future direction of cross-strait relations if the KMT returns to power in 2008. Chiang suggested Beijing's approach has softened significantly under President Hu Jintao, who is unnerved by Chen's independence agenda and is more willing than previous CCP leaders to work with the KMT to preserve the "status quo." Although reluctant to work with the pro-independence DPP, Beijing is willing to engage the KMT because it maintains a "one China" policy, Chiang said.

¶3. (C) According to Chiang, the KMT has opened a dialogue with the CCP that is aimed at: 1) reaching a peace agreement that provides a framework for future cross-strait relations; 2) initiating dialogue and confidence building measures; and 3) expanding Taiwan's participation in international organizations, such as the World Health Organization. A KMT administration after 2008, ideally headed by Ma Ying-jeou, could make substantive progress along these lines, Chiang asserted.

14. (C) Once in power, Chiang acknowledged, the KMT would encounter predictable resistance from Beijing on issues involving Taiwan's sovereignty. For the KMT "one China" means the Republic of China, which has been an independent and sovereign state for over 80 years. Given this situation, the "one country, two systems" model proposed by the PRC is "completely unacceptable." Maintaining the ROC as a sovereign state is different from the DPP's ultimate goal of creating a Republic of Taiwan, Chiang suggested. The KMT supports the right of the 23 million inhabitants of Taiwan to choose between unification with the mainland and maintaining the "status quo" of the ROC as a sovereign, independent state, Chiang added.

15. (C) Chiang said the KMT expects Beijing to continue "squeezing" Taiwan's international space by pressuring its remaining 24 formal diplomatic partners to switch recognition and by trying to constrain the international travel of ROC leaders. Chiang told DDIR that the KMT has not raised this issue with Beijing during its dialogue with the CCP, but he acknowledged that the two sides would have to address the issue if the KMT wins the 2008 presidential election. Any accommodation would be difficult to reach since Beijing maintains a "strong position" on the issue, Chiang added. As an example, he cited Beijing's pressure on South Korea in 2005 to withdraw an invitation to then KMT Vice Chairman and Taipei Mayor Ma Ying-jeou to attend an Asian leaders forum.

Taiwan's Economy -----

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16. (C) Chiang strongly criticized Taiwan's economic policies in recent years, characterizing as a "lost decade" the period since former President Lee Teng-hui implemented the "go slow" approach toward investment in the PRC in 1995. Greater economic integration and closer links with China are essential for the future well being of Taiwan's economy, Chiang insisted. The failed policies pursued by Lee and then President Chen have damaged the long-term economic viability of Taiwan. Chiang pointed to slowing consumer consumption, which accounts for 60 percent of Taiwan GDP, down from 6 to 3 percent growth, as well as a significant slowdown in the rate of investment growth over the past five years as key indicators. Without a correction, he lamented, Taiwan could become a "second Philippines," noting that South Korean companies have already begun to target Taiwan as a source of high quality workers.

17. (C) Chiang argued that direct cross-Strait links will encourage further foreign direct investment in Taiwan and entice Taiwan's high-tech companies to maintain most of their operations on the island. Direct links would facilitate Taiwan's rise as a distribution, re-export, and investment base for the China market, and would also allow more Taiwan businessmen and their families to continue living on the island rather than moving to the PRC. Premier Su Tseng-chang is one of the few DPP leaders who understand the importance of additional opening, Chiang suggested, adding, however, that Su is currently constrained by "extremists" within his party.

Domestic Politics -----

18. (C) Chiang said the December 9 mayoral elections in Taipei and Kaohsiung are critical to the KMT in laying the groundwork for the 2007-2008 legislative and presidential elections. The KMT has had little money to spend on the mayoral elections despite their importance, Chiang said, pointing to Ma's decision to use the proceeds from party asset sales to pay for KMT worker pensions rather than

campaign expenses. The investigation of Ma's mayoral special allowance has only minimally affected the KMT candidates' election prospects, Chiang suggested, though Ma's popularity has taken a small dip. Ma still energizes crowds on the campaign trail, even in Kaohsiung, and will continue to be the most important KMT campaign asset. Aside from Ma, Chiang observed, the KMT lacks any other viable presidential candidate for 2008.

Comment

19. (C) The KMT, pleased with the progress of its party-to-party relations with Beijing over the past year and a half, could encounter a more difficult situation if it comes into power in 2008. Beijing's accommodating attitude toward the KMT may in part reflect united front tactics to put pressure on the DPP government. In power, the KMT would have to directly bear the brunt of whatever pressure Beijing chooses to exert on the Taiwan government at that time. While the Chinese Communist Party can recognize the KMT as an equal political party, PRC unwillingness to accept the ROC government as having equal status will complicate efforts to reach agreements on politically sensitive issues.
YOUNG